

Latham Group

Third Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Oliver Gloe--*Chief Financial Officer*

Casey Kotary--*ADVISIRY Partners*

PRESENTATION

Operator

Good afternoon, and welcome to the Latham Group Third Quarter 2025 Earnings Conference Call. [Operator Instructions]. Please note, this event is being recorded.

I would now like to turn the conference over to Casey Kotary, Investor Relations Representative. Please go ahead.

Casey Kotary

Thank you. This afternoon, we issued our third quarter 2025 earnings press release, which is available on the Investor Relations portion of our website. On today's call are Latham's President and CEO, Scott Rajeski; and CFO, Oliver Gloe. Following their remarks, we will open the call to questions.

During this call, the company may make certain statements that constitute forward-looking statements, which reflect the company's views with respect to future events and financial performance as of today or the date specified. Actual events and results may differ materially from those contemplated by such forward-looking statements due to risks and other factors that are set forth in the company's annual report on Form 10-K and subsequent reports filed or furnished with the SEC as well as today's earnings release.

The company expressly disclaims any obligation to update any forward-looking statements, except as required by applicable law. In addition, during today's call, the company will discuss certain non-GAAP financial measures. Reconciliations of the directly comparable GAAP measures to these non-GAAP measures can be found in the slide presentation that is available on our Investor Relations website.

I'll now turn the call over to Scott Rajeski.

Scott Rajeski

Thank you, Casey, and thank you all for participating in today's call to review our third quarter and year-to-date results as well as discuss our business outlook. This was another strong quarter for Latham. Net sales were up 7.6% year-on-year, significantly outpacing the U.S. in-ground pool market, which we expect to be flat to slightly below 2024 levels.

Adjusted EBITDA increased by \$8.5 million or 28.5%, a clear indication of the substantial operating leverage inherent in our business model. These results highlight Latham's competitive strengths; our diversified product portfolio and the actions we have taken to position the company for continued growth. I am pleased to report that our third quarter results showed progress across all of our key financial metrics.

First, all three of our product lines experienced year-on-year growth. In-ground pool sales were modestly ahead on a year-over-year basis, reflecting positive momentum in fiberglass pools, partially offset by continued softness in packaged pool sales. Second, both covers and liners showed strong year-on-year growth with sales up 15% and 13%, respectively. This considerable growth has been driven by investments we have made to strengthen Latham's market position in both product lines.

Third, this was another quarter of meaningful margin expansion. Gross margin increased to 35.4%, up 300 basis points year-on-year, and adjusted EBITDA margin increased to 23.7% for

the quarter, up 390 basis points and with current tariffs fully mitigated. And lastly, we ended the third quarter in a strong financial position, providing Latham with the resources to invest in organic growth projects as well as consider accretive acquisitions.

Several factors have enabled Latham to continue to outperform the U.S. in-ground pool market. We have been investing in building the awareness and adoption of fiberglass pools and auto covers, two key growth drivers for Latham, and in developing a proprietary measuring tool to increase our liner and safety cover sales. And in the third quarter, we posted year-on-year net sales growth in each of our product lines within an overall market that we expect is flat to slightly down for the year.

Our in-ground pool sales increased modestly, up just under 1% from last year, but we saw continued positive momentum in fiberglass pool sales, which are tracking to account for approximately 75% of our full year 2025 in-ground pool sales. Additionally, our initial analysis indicates that fiberglass pools are poised to gain another 1% of the total in-ground pool market to represent approximately 24% of total U.S. in-ground pool sales in 2025.

Latham has the broadest lineup of fiberglass pool configurations in the market, the widest range of price points, and the greatest array of specialty features, including spas and tanning ledges. Our marketing programs emphasize the cost advantages, fast and easy installation, and lower maintenance requirements of fiberglass pools compared to concrete pools, and these attributes are resonating well with both consumers and dealers. Installers rank the lack of available workforce as one of the top five impediments to growing the business. And with fiberglass, they can install six pools in the time it takes them to build one concrete pool now and with two-thirds fewer workers.

This selling point has enabled us to convert a substantial number of dealers and installers so far in 2025, many of whom are located in our target growth geographies such as the Sand States. Sales of pool covers increased 15% year-on-year with a meaningful share of that representing organic growth in auto covers.

In addition to the revenue synergies we are gaining from the three Coverstar acquisitions, this considerable growth is a function of very positive consumer response to the unparalleled safety that autocovers offer. As a reminder, Latham's autocovers are compatible with all types of in-ground pools and their significant cost savings from reduced water, energy, and chemical usage enable autocovers to effectively pay for themselves within four to five years.

Also, 16 states, in addition to a number of municipalities around the country have now expanded their pool safety regulations to allow auto covers to be used in place of traditional fencing around the pool, which results in additional savings for the pool owner.

Liner sales increased 13% in the quarter. Our industry-leading lead times, together with the investment we've made in our Measure by Latham tool, and its successful rollout are making a substantive difference for our liner business. This AI-powered tool is proprietary to Latham and streamlines the measurement and quoting process for installers, ensuring a high degree of accuracy in less than 30 minutes versus two to four hours to do the measurements manually. The tool is fully integrated with the Latham order entry system, which allows installers to get real-time quotes and seamlessly submit orders and track their status.

Year-to-date, 25% of the installers who purchased this tool were new to Latham, supporting our objective of leveraging this tool to gain share for our liner product line. It is also helping us gain

share of the winter safety cover market. In September, we rebranded Measure as MeasurePro and also launched MeasureGo, a new app that expands this technology's reach to more dealers by leveraging the iPhone's LiDAR scanner to enable installers to accurately measure safety covers.

As you know, Latham's expansion in the Sand States is a strategic priority for us as it represents a significant multiyear growth opportunity. In the third quarter, we gained traction on several pillars of our growth plan, laying the foundation for future long-term market share gains. Dealer conversions in Florida, one of our initial target markets, have been in high gear. Year-to-date, I am pleased to report that our Florida sales have increased at a high-single-digit rate and Latham is now represented in several Master Planned Communities, or "MPCs," in Florida.

We continue to evaluate additional complementary strategies to further accelerate our growth in these MPCs, where we are already seeing increased awareness of the Latham brand and our product lineup. Additionally, we have established strategic partnerships with several custom homebuilders in Florida who are developing smaller scale, high-end communities that will feature Latham fiberglass pools.

To sum up, this was another quarter of considerable market outperformance for Latham. With much of the pool building season behind us, we are very pleased with our year-to-date sales trends. We have strengthened our market leadership position in fiberglass pools, autocovers, and in-ground pool liners, and gained traction in the Sand States. All of this has been accomplished while significantly increasing our margins and improving our financial ratios.

Now, I will turn the call over to our CFO, Oliver, for a financial review.

Oliver Gloe

Thank you, Scott, and good afternoon, everyone. I'm pleased to report on our strong third quarter financial performance, which highlighted Latham's competitive strength and continued ability to outperform the market. Please note that all comparisons that I will discuss today on a year-over-year basis compared to the third quarter and first nine months of fiscal 2024, unless otherwise noted.

Net sales for the third quarter were \$162 million compared to \$151 million in the prior year, up \$11 million or 7.6%. This increase was primarily driven by organic growth of 4.7% and reflected acquisition-related growth in sales volumes and a tariff-related price increase. All three of our product lines, in-ground pools, pool covers, and pool liners experienced year-over-year growth in the period.

These results demonstrate the strength of our diversified product portfolio as well as continued progress in our strategic growth initiatives – mainly increasing the awareness and adoption of fiberglass pools and automatic safety covers, expanding our sales of in-ground pool liners, and gaining traction in the important Sand State markets.

Across our product categories, in-ground pool sales increased by approximately 1% year-over-year in the third quarter. This performance was achieved against the backdrop of a U.S. in-ground pool market that we estimate will remain flat or decrease slightly, underscoring our ability to outperform the broader market. And this growth reflects continued momentum in fiberglass penetration as builders and consumers increasingly recognize the appeal and benefits of a fiberglass pool.

Cover sales increased by approximately 15%, driven by higher adoption rates for auto covers, which are typically purchased alongside a new pool as well as revenue synergies from our three Coverstar acquisitions and strong consumer engagement with our marketing initiatives, including our recent partnership with Olympic Gold Medalist and pool safety advocate, Bode Miller, which highlighted the important role of autocovers in overall pool safety.

Liner sales increased by approximately 13%, and this positive performance was driven by our industry-leading lead times and the increased adoption of our Measure by Latham tool. This year marks the second season of the Measure tool in use and pool builders are increasingly recognizing its accuracy and efficiency for measuring both pool liners and covers. Gross margin expanded by 300 basis points to 35.4% in the third quarter, primarily due to the accretive benefit of the three Coverstar acquisitions and the continued success of our lean manufacturing and value engineering initiatives in driving production efficiencies.

SG&A expenses increased slightly to \$28.6 million, approximately in line with the \$28.3 million recorded in the prior-year period. The stable level of SG&A spend this quarter included increased investments in sales and marketing initiatives and personnel as we move forward with our strategic growth initiatives, along with investments in new ERP infrastructure, partially offset by the timing of performance-based compensation.

Net income was \$8.1 million or \$0.07 per diluted share, an increase of \$2.2 million or 37.7% compared to the \$5.9 million or \$0.05 per diluted share for the prior year's third quarter. Adjusted EBITDA was \$38.3 million, an increase of \$8.5 million or 28.5% from last year's \$29.8 million, and our adjusted EBITDA margin was 23.7%, a 390-basis-point increase from 19.8% in the prior-year period, including additional investments in marketing initiatives to drive share gains for fiberglass pools and auto-covers.

Now turning to our year-to-date results comparisons. Net sales were \$446 million, up 5.9% compared to \$421 million. Net income was \$18.1 million, up 60.3% compared to \$11.3 million. Adjusted EBITDA was \$89.4 million, up 16.7% compared to \$76.6 million in the prior year. Adjusted EBITDA margin increased 180 basis points to 20.0% from 18.2%.

Turning to our balance sheet and cash flow statement. We continue to maintain a strong financial position with cash of \$71 million at the end of the quarter. Net cash provided by operating activities was \$51 million in the third quarter and \$40 million for the first 9 months.

Total debt as of the end of the period was \$281 million with a net debt leverage ratio of 2.3, considerably below the 3.0 in the year's second quarter and we expect our net debt leverage ratio to approach 2 by year-end. Our disciplined capital allocation strategy remains focused on deploying capital opportunistically to position Latham for profitable organic and acquisition-related growth and to de-lever and further reduce our net debt leverage ratio.

Our capital expenditures were \$5.8 million for the third quarter and \$16.2 million for the first 9 months of 2025.

Moving on to our outlook. With the peak pool building season now behind us and based on our current visibility through year-end, we have narrowed our guidance ranges for net sales and adjusted EBITDA and revised our CapEx estimate for 2025.

Our net sales guidance range is now \$540 million to \$550 million, representing 7% year-over-year growth at the midpoint, and our adjusted EBITDA range is now \$92 million to \$98 million,

representing 19% year-over-year growth at the midpoint. We've also revised our CapEx estimate to a range of \$22 million to \$24 million.

With that, I will turn the call back to Scott for his closing remarks.

Scott Rajeski

Thanks, Oliver. As I mentioned earlier in my remarks, we expect 2025 new U.S. pool starts to be flat to slightly down compared to 2024. Within this challenging industry environment, we are very pleased to be able to provide guidance of 7% sales growth and 19% adjusted EBITDA growth at the midpoints. Looking ahead, we are confident that increased fiberglass pool and autocover adoption will enable Latham to continue to outperform the in-ground pool market.

And as we have noted, when new U.S. pool starts return to 78,000 per year, meaning when they return to their 2019 level, our new structurally changed business model should enable us to achieve about \$750 million in net sales and \$160 million in adjusted EBITDA. This would represent more than double our 2019 revenue and 2.5x our adjusted EBITDA at the same volume of new U.S. pool starts. Operator, I would like to open the call to questions.

QUESTION AND ANSWER

Operator

[Operator Instructions] The first question comes from Andrew Carter with Stifel. Please go ahead.

Andrew Carter

Hi, thank you very much. First question I wanted to ask is in terms of kind of the upstream metrics you have from leads, consumers, contractors, anything like that. What have you seen as you've moved through the quarter and perhaps customers have started to digest tariff costs, the incremental uncertainty?

Scott Rajeski

Hi, Andrew, this is Scott. I think leads have been a real strength of ours throughout the entire peak pool building season in 2Q and 3Q. And I think as we talked on one of the last calls, we did our first national direct TV campaign, and we got a really phenomenal response off of that. I think exiting third quarter, we're tracking well ahead of all the leads we generated full-year last year and we were up significant double-, if not triple-, digits year-over-year through several of those periods.

So the interest, the want for pools and everything is out there. I think what's still lagging is the confidence to make the ultimate pool buying decision based on tariff uncertainty and I'd say interest rate uncertainty. But clearly, we've got a lot of leads and demand to work from that we've been pushing to our dealers. I think that's kind of what really helped us have 5% organic growth here in the quarter.

Andrew Carter

Second question I would ask then getting to kind of the liners performance, up 17%. That's just - there's two businesses to that. There's, of course, the replacement business and the new construction. On the first side, is replacement now starting -- is this category starting to hit a cadence where some delays are starting to be caught up or is that category still bogged down by deferrals?

And then when you say new construction down -- flat to down, I would assume the kind of package pools, the vinyl underperforms that. So could you just add some context to the overall liners performance? Is it remodel catching up or is it just all really a function of your market share gains? Thanks.

Scott Rajeski

Yes. Andrew, I'd say it's a combo of the two. So one, I'd say, I think with the Measure tool out there, we've seen some really nice share gains and pickup in the replacement side of the house for in-ground vinyl liners. The flip side is with the lower end of the market on, let's say, new vinyl liner pools being probably down more significantly than, let's say, the higher end of the market.

A lot of the dealers who play in that space will focus on repair, replacement, remodel of existing pools renovating the liners for homeowners. And I think we've done a really nice job getting share gains out there, as I said, right upfront, bringing more dealers into that type of category. And again, if you're a homeowner and you've got a pool and your liner has failed or just looks awful, you're going to make that discretionary spend to kind of get your pool functional again for the season. So we're really happy with the progress we've seen there.

And on the new construction side, again, I think lower-end of the market, which is more the vinyl side of the world, that's just still been a little bit tough and been down out there and completely different than what we see in the fiberglass side, where, again, higher-end consumer continuing to see good share gains there. And the consumer wanting that fiberglass pool in the ground faster than other pool types.

Andrew Carter

Thanks. I'll pass it on.

Operator

The next question comes from Greg Palm with Craig-Hallum Capital Group. Please go ahead.

Danny Eggerichs

Hey, guys. This is Danny Eggerichs on for Greg today. I appreciate you taking the questions. I think I'd like to just start kind of maybe broader from a geographical perspective, how you saw demand kind of progress throughout your geographies throughout the quarter and how is that different from a few months ago and where are we seeing kind of outperformance, underperformance?

Scott Rajeski

Yeah. Look, I'd say, it's been pretty consistent throughout the entire season. And what I would say is, strength throughout most of the country, Canada, Northeast, Midwest, Southeast for us, we've been really happy with what we've seen in Florida, despite a challenging environment down there with what some of the permit data shows. I think the two negative spots have continued to be Texas and California. I think others have talked about the difficulty in those two markets. They've been tough, but rest of the country, I'd say pretty consistent and strong throughout the entire build season for us.

Danny Eggerichs

Got it. Maybe if we can double click on Florida there, then, you mentioned your work with MPCs. So maybe just a little more color on how exactly that progressed throughout the quarter. And then also, you made some comments on the strategic partnerships with a few custom homebuilders in

the region. Just curious on what that entails and maybe whether or not that can be kind of replicated in other states going forward and part of the broader strategy?

Scott Rajeski

Yeah. Look, we're real happy with where we are in Florida. Again, a little bit of a tough market down there. But I think that the team's been very focused to get into these MPCs, establish the relationships, whether we're going at it by ourselves or with some dealers in certain locations. So I think the number of MPCs we've entered into is tracking probably ahead of what we had hoped for coming into the year.

I think the team's done a really, really nice job targeting some of these smaller, high-end custom homebuilders, who really don't want to get bogged down on the pool install or build side of the equation. So we partnered with several of them, again, smaller communities, 15, 25, 30, 35, 40 homes. They're not these massive thousands-type home communities.

But our view is it gives us a presence in these communities, gets more people touching, seeing, feeling fiberglass. And then the hope would be as the national guys start to see that regionally in some of these markets with these adjoining communities, that will help to drive the acceleration with some of the larger homebuilders out there as we continue to drive it.

And I think, look, we continue to learn in this market what will work and what won't work. I think we've established some really strong relationships with local installers and builders. Again, we've had several down there that have been really, really great builders for us. We're trying to bring in some new guys into the industry, into the business with some unique partnerships. And I think, we're really happy where we sit. And look, this is a long-term play for us getting in there. I think we talked about high-single-digit kind of growth numbers in Florida season to-date. So, like I said, I'm really pleased, really happy and we're really just starting to scratch the surface with all the things we can do here.

Danny Eggerichs

Yeah. Sounds good. I will leave it there. Thanks.

Scott Rajeski

All right. Thanks, Danny.

Operator

The next question comes from Michael Francis with William Blair. Please go ahead.

Michael Francis

Hey, guys. This is Mike on for Ryan. Thanks for taking the question. I wanted to go a little deeper into Florida there. I would love to know if you think your outperformance there is largely a byproduct of being in MPCs that are building at high rates. Do you think you're taking much share even in communities where the trends are following what new housing is doing overall?

Scott Rajeski

Yeah. Look, I think it's the presence in the MPCs. If you look at some of the permitting data and where housing is tough, it's more in the coastal areas, which is probably the higher end concrete side of the market. I think the one surprise, and I probably should have answered this to Danny's question in Florida. The one thing I think that we've been really, really happy with is the number of concrete dealers we've converted over to fiberglass.

I think as they see and feel and we see more labor challenges in the market, and the number of people it takes to install or let's say construct a concrete pool in the field, they're realizing they can get a fiberglass pool in the ground with a lot less labor, a lot faster for themselves, for the homeowner, and probably, make a little bit more money productivity-wise.

So I think, that's been good. I think we have, seen some share gains with dealers from some of the other folks in the industry. But again, it's a combination of kind of all the above. Just targeting these new MPCs where there's a lot of homes in the ground with no pools and a lot of new phases of those developments coming online.

And look, I'll give you a good stat that was interesting. We just did a big Halloween event in Babcock Ranch, and I know we always sell Babcock. That's really the home base of where we've started the push. Over 1,000 people stopped by the Latham booth during the course of that event, inquiring about pools, talking to our sales reps who were there on the ground. It just shows you the power of being there and having a presence in the local community, driving the awareness, which eventually, hopefully those will turn into future pool sales for us.

Michael Francis

Thanks. Another one from me, would want to know where price landed in the quarter and also get an update on tariffs. Any additional costs coming through or has that been fairly steady?

Oliver Gloe

Yeah. Let me take the price question first, right? So you might remember we implemented the price increase primarily addressing tariffs in June. So the price in the quarter was actually up by about \$3 million. And then, moving on to the tariffs, you might recall from prior calls that, we had a tariff exposure of about \$20 million and supply chain-based mitigation, \$10 million. And then we, as I said, implemented that price increase in June with an annual rate of about \$10 million.

Knowing that the environment has been dynamic in Q3, probably is going to continue to be dynamic as we go forward. That net tariff exposure, net between the tariffs and then our supply chain-based mitigation over the last weeks, probably months, has still remained at that \$10 million, right? As some tariffs go up, we have reacted on the supply chain side, moving things around between suppliers, geographies, plants. But that net really has stayed at about \$10 million.

And that \$10 million, we have covered with that price increase in June. So, again, knowing that it's probably going to stay dynamic for a while, at least at this point in time, based on everything we know, we feel comfortable where we are, having mitigated the 2025 impact and at least as of today, also the run rate impact going forward.

Michael Francis

All right. Appreciate the questions. I will pass it on.

Operator

The next question comes from Bobby Schultz with Baird. Please go ahead.

Bobby Schultz

Hey, guys. Thanks for taking the question. Maybe for Scott, bigger picture here, you guys have stated that fiberglass has taken about 1% of market share in the in-ground category over the past few years and expect to do so again here in '25.

And just given your fiberglass market share and your evolving geographic mix with the investments you're making in the sand states and increasing dealer awareness, is there room for that 1% number to accelerate in the coming years, just given all the different growth initiatives you have going on?

Scott Rajeski

Yes. Look, I think kind of a little bit of a tough question because I think our view has been the 100 basis points a year has kind of been what we've demonstrated, in some years a little bit more as pool starts will recover, let's say, through the COVID years. I think what the balance has to become is if the lower-end of the market starts to pick back up, the vinyl consumer jumps back into the market, how would that impact the number.

But clearly, we feel strongly that the 100 basis point increase is kind of what's embedded in that long-range outlook with pool starts returning to 78,000 with the \$750M and \$160M number we've been talking about now for almost a year with that long-term view.

But look, as we sit there and you just do the math, Bobby, right, 75% of pool starts roughly in the Sand States, where we have little presence. As we gain more and more traction there, you could argue that there could be and should be an acceleration of that for all of us in the industry.

Bobby Schultz

Got it. And then one for Oliver here. It looks like SG&A for the full year, it's on pace to step up. Maybe how should we think about SG&A spend into the fourth quarter and then maybe into next year, assuming maybe the market is relatively stable from a new pool build perspective?

Oliver Gloe

I mean, let me walk you through this year. From a comp perspective, you saw us stepping up SG&A primarily with an eye on the Sand States sales and marketing kind of mid-year last year. So therefore, the first two quarters of this year, you saw a sizable year-over-year increases. And just because that's now in our base in 2024 in the third quarter, you know, SG&A has been flattish.

I don't expect that to change a lot in Q4 either. And then as we think of going forward, we're going to continue to invest in our position in the Sand States and step up our sales and marketing investment as we see the returns, right? So, I think that journey is going to continue.

Bobby Schultz

Understood. Thanks, guys.

Operator

The next question comes from Matthew Bouley with Barclays. Please go ahead.

Elizabeth Langan

Good evening. You have Elizabeth Langan on for Matt today. Thank you guys for taking the questions. I wanted to jump back to price. I know you had kind of given some comments around price increases this year relative to tariffs. I was wondering if you could talk about your pricing strategy going forward a little bit. Are you planning to announce an annual increase? Or is that something that you're going to kind of reserve in case you are seeing a higher tariff rate into next year?

Oliver Gloe

Yeah, I think the -- at one point in time, we will hopefully be able to go back to kind of a normal cadence of an annual seasonal increase that usually is announced in the winter break for the new season. And obviously, over the last few years, you've seen inflation, you've seen tariffs, so we got off that cadence a little bit. But assuming that things will normalize, then we will go back to kind of that annual seasonal increase.

Elizabeth Langan

Okay. Thank you. And then is there anything that we should keep in mind in regards to orders or leads in terms of stocking and demand through the end of the year and into early 2026? Or if you have any early thoughts on the directionality for pool starts next year, that would be great.

Scott Rajeski

Yes. Look, I'd say probably, Elizabeth, too early to kind of get a feel for '26 at this point. I think as we've said in the last several years, you know, we've been at a few conferences so far over the last two or three weeks. We've got several more upcoming over the next few months here. That's when we'll really gather the intel from our dealers, from the builders in terms of what they're seeing and feeling for backlogs out into 2026.

Look, I'll still say we're kind of in this trough where plus or minus a few percent on a 60,000 or 62,000 pool start number is just too hard to call, and it's probably noise in the data that PK typically publishes. So it's really hard to call a number directionally.

And I think as you guys are all aware, right, 4Q is the typical wind down of the season. I think order rates have continued fairly strong as we're rolling through what's left of our winter safety cover season. That's winding down here as we kind of approach the Thanksgiving holiday.

And then I think things will be kind of shutting down for the season once we kind of get into early-to mid-December and dealers kind of take that break. But it's been pretty consistent through the entire season from an order rate standpoint.

We're really happy with what we've seen out there. I put this winter safety cover season similar to liners, a little bit of a later start. Liners ran a little longer, thus the great liner performance. Slower start to winter safety covers because folks are trying to get pools in the ground in 3Q.

As the weather is now really starting to change, especially here in the Northeast, we've seen a nice acceleration of that winter safety cover business, orders staying strong and we just want to wrap up Q4 here on a high note and kind of get to the midpoint of the guide numbers that Oliver mentioned in the earnings call there.

Elizabeth Langan

That makes sense. Thank you much.

Operator

The next question comes from Susan Maklari with Goldman Sachs. Please go ahead.

Charles Perron

Good evening, everyone. This is Charles Perron in for Susan. Thanks for taking my question. First, I'd like to talk a little bit more about some of the productivity initiatives. It was great to see the continued benefit to gross margin from those lean manufacturing and value engineering efforts this quarter. I guess, against that, how do you think about the path for future savings here? And

can you unpack some of the initiatives that came through over the course of the quarter and this year?

Oliver Gloe

Can you please repeat the second part of your question?

Charles Perron

Just can you unpack some of the initiatives that came through in those results?

Oliver Gloe

Yes, perfect. So first of all, we are very pleased with our gross margin development in the third quarter, 300 basis points up and that came pretty equally through lean and value engineering and that's obviously sponsored by some of the volume leverage that we saw in the quarter and then Coverstar Central was the remainder here.

Like I said on prior calls, \$2 million to \$2.5 million should be our quarterly contribution. So it was actually a little bit more. It was about \$3 million again, driven by volume in the third quarter. And those lean and value engineering improvements, these are structural improvements to our cost base. They're here to stay. They're in our run rate. We'll be a little bit on to that in future quarters. And I would say for the foreseeable future, that \$2 million to \$2.5 million is probably a good assumption to build into the model.

Charles Perron

Got you. That's good color. And second, I want to switch to capital allocation. I think in your prepared remarks, you mentioned that you approach the 2.0 net-debt-to-EBITDA leverage target by year-end. How do you think about that leverage going forward? What level are you comfortable with in terms of target? And then when you think about your growth initiatives, including M&A, how comfortable are you with M&A activity going forward and what is the pipeline that you see currently right now for the business?

Oliver Gloe

Yes. First of all, with now \$71 million in the bank as of quarter end, nearing 2 at the end of the year, very, very pleased with the cash generation of this business and then how the balance sheet is managed. With 2, with a net debt leverage ratio of 2 and we'll certainly have some dry powder to execute our capital allocation policy. We have done that very consistently. And the three key pillars are investing in the business. You saw stepping up CapEx this year.

That's investing in the Sand States models for pools that resonate, especially in the Sand States, these are smaller rectangular pools, then debottlenecking our two facilities in the Sand States, Oklahoma, Florida. So that's where additional focus has gone into. From an M&A perspective, you mentioned we are acquisitive. We've done historically about one acquisition a year.

We've done three over the last 13, 14 months and I expect a certain M&A activity going forward as well. And then lastly, opportunistically, we've paid down debt, about \$35 million over the last 2 years, 2.5 years. So I think very active and consistent execution of our capital allocation policy, which I expect us to continue to do going forward as well.

Charles Perron

Okay. Thank you for the color and good luck with the quarter.

Oliver Gloe

Thanks, Charles.

Operator

[Operator Instructions] The next question comes from Shaun Calnan with Bank of America. Please go ahead.

Shaun Calnan

Hi, guys. Thank you for taking my question. Going back to the SG&A. So the year-over-year growth in the first half was much higher than this quarter and you still had the inclusion of acquisitions. So I'm just curious, did you guys slow any of the marketing spend? And if so, what drove that? Is it just the time of the year or did you feel like you guys had to just pull back a little bit there?

Oliver Gloe

No, Shaun. So what's really driving the different comp to last year is that a lot of the increase you have in the basis. So two things happened about mid last year. We stepped up our investments in the Sand States, again, sales and marketing. And then we also bought the Coverstar Central business in early August. So that's in our base as well.

There's always a little bit of timing around performance-based compensation, through which we had a slightly, a tailwind in this quarter. But from a seasonal spend and I'll remind you that most of our spend in marketing is sort of ahead of the season, Q1, Q2. Q3 is a normal quarter and I'd say that in Q4, there's nothing we changed from a seasonality standpoint that I'd mention. It's quite consistent, our behavior this year versus last year. Now obviously, that's recognizing that we did step up our marketing spend mid last year. So it's more a question of the comp versus any different change in behavior or a different change in how we see our Sand State strategy.

Shaun Calnan

Okay. Got it. And then, so I think in the fourth quarter, you guys had to change some plans around shipping out of the Kingston facility with all the tariffs and trade war stuff going on with Canada. Now that, that's kind of eased a little bit, is there any different intention with that facility? Are you able to ship back to the U.S. now or just any update there in general?

Oliver Gloe

No. Let me start off by saying we are very pleased with our nine facilities, a coast-to-coast network of fiberglass facilities with one plant in Canada that we have that flexibility to ship from. We never shifted just because our fiberglass pools are USMCA compliant, therefore, never have been subject to tariffs, those Kingston pools coming South. And so we did produce in Kingston and are planning to produce in Kingston going forward.

Shaun Calnan

Okay. Great. Thank you.

Conclusion**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Scott Rajeski for any closing remarks.

Scott Rajeski

Alright. Thanks, Drew. Thanks, everyone for participating in today's call. We look forward to seeing you guys at upcoming conferences and events. Most importantly, we want to wish you all a very happy holiday season. And just looking ahead into early '26, for the first time ever, Latham is planning to have a booth at the International Builders Show in Orlando in mid-February. And we hope to see many of you there as well as we showcase Latham right there in the heartbeat of the Sand States in Florida. Thanks for your time today, everyone. Have a good evening.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.